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Report on results achieved by the United Nations Capital Development Fund in 2008*

Summary

The annual report documents and analyses the performance of the United Nations Capital Development Fund against established programme, management and financial results targets. It forms part the results-based management system of the fund and reflects efforts to continually monitor and improve performance in its two practice areas – decentralization and local development, and inclusive finance.

In 2008, the United Nations Capital Development Fund had operations in 38 countries, of which 10 were post-conflict countries. The overall budget delivery rate stood at 70 per cent; the performance rate in the decentralization and local development practice area was 77 per cent, and the performance rate in the inclusive finance practice area was 80 per cent. In short, the organization achieved its programmatic targets.

Resource mobilization during 2008 was particularly successful. Total income increased from $28.5 million in 2007 to $50.1 million in 2008, which includes $6 million managed by UNCDF on behalf of UNDP (in accordance with Executive Board decision 2007/34).

* The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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Introduction

1. The United Nations Capital Development Fund (UNCDF) – established in 1966 by the General Assembly and given a unique capital investment mandate – supports least developed countries achieve the Millennium Development Goals (MDGs) as well as implement the Programme of Action for the Least Developed Countries for the Decade 2001-2010. UNCDF focuses on two broad practice areas of high relevance for achieving the MDGs, particularly at the local level: (a) decentralization and local development; and (b) inclusive finance.

2. The comparative advantage and niche of UNCDF in those practice areas builds on its mandate and capacity to provide a mix of small-scale capital grants, credits and guarantees, and capacity-building services to important public and private sector actors. Based on local level interventions, UNCDF uses in-house technical expertise and its United Nations mandate to channel policy-relevant lessons to national governments for replication and broader national up-scaling. Such initiatives are usually funded by other development partners who aim for larger size interventions.

3. The decentralization and local development programmes of UNCDF seek to improve governance, social services and pro-poor economic infrastructure at the local level by providing technical assistance and capital grants directly to local authorities. Local experiences gathered permit UNCDF to provide evidence-based policy advice to support national governments in their efforts to launch decentralization strategies.

4. The inclusive finance programmes of UNCDF provide poor households, as well as small and micro-enterprises, with enhanced access to a wide range of affordable financial services by promoting the growth of inclusive financial sectors. Through a sector development approach, UNCDF provides a combination of investment capital to microfinance institutions and policy-relevant lessons and technical assistance to governments, central banks and the 'meso-level' support industry.

5. UNCDF interventions are well-aligned with the key principles of the Paris Declaration on Aid Effectiveness in terms of country ownership, alignment with country systems, donor harmonization and results-oriented approaches. This is, in fact, a precondition for UNCDF to achieve substantive policy impact and replication, contributing to the ultimate goal of poverty reduction through improved access to public and private services.

6. UNCDF actively demonstrates its commitment to United Nations reform and system-wide coherence – at the programmatic level, by engaging with other United Nations organizations through joint programmes, and at the institutional level, by integrating its areas of interventions with those of the UNDP strategic plan and aligning administrative systems with those of UNDP to the greatest extent possible.

7. The 2008 annual report provides an overview of UNCDF performance from a programmatic, management and financial results perspective, against the backdrop of established targets. In 2008, UNCDF expanded its interventions to 38 least developed countries – up from 31 in 2007. UNCDF is making good progress towards expanding its programme to 45 least developed countries by 2011, as set out in the UNCDF investment plan (2008-2011).

8. The expansion of interventions was made possible in part by a substantial increase in contributions to UNCDF regular and other resources in 2008. Total resources increased from $28.5 million in 2007 to $50.1 million in 2008 – a 76 per

cent increase. Included in this amount, is $6 million allocated by UNDP to UNCDF programme activities, in line with Executive Board decision 2007/34).

9. The performance of UNCDF in 2008 is measured against its strategic results framework, which highlights the innovative dimensions of the two practice areas. The performance also takes into account the contributions of UNCDF to key results in the UNDP strategic plan – specifically outcomes 5 and 6 of goal 1: achieving the MDGs and poverty reduction.

I. Programme results

A. Performance analysis for sub-goal 1: local development

Framework for measuring results

10. *Public expenditure management cycle.* The main objective of the UNCDF local development practice area is to promote more effective, efficient, equitable and accountable pro-poor infrastructure and service delivery through rural local governments. This is accomplished by twinning innovations in funding mechanisms with 'capacity development' innovations in planning, budgeting, delivery and accountability arrangements. The UNCDF approach to local development puts a strong emphasis on the promotion of 'scalable' local delivery systems for achieving the MDGs.

11. *Developing local public expenditure management capacity.* This is a key pillar of the UNCDF pilot concept, which aims at improving local government compliance with the roles and responsibilities they are supposed to have according to existing legislation (or potentially could have, once the local government system has been reformed and improved). By providing local authorities with budget support – rather than project financing – UNCDF capital investment grants provide an opportunity to activate the systems, related legislation and procedures of local governments. The assistance of UNCDF focuses initially on the establishment of a solid local planning process and generating an annual investment plan with strong local ownership. This in turn triggers an assessment of required budgetary resources and their availability, drafting of an annual budget and a highly transparent tendering and competitive bidding process using domestic procurement legislation and procedures. Results are measured against local government performance in managing the above-cited process and achieving high implementation rates of investment plans, and satisfactory maintenance of investments with own funds.

12. *Budget delivery for achieving results.* Out of $37.0 million in regular resources expenditures during 2008, the local development practice area accounted for $22.07 million – 72 per cent – slightly lower than in the $23.8 million in expenditures in 2007 (73 per cent in terms of budget delivery). However, when the numbers are broken down, 2008 expenditures show that almost 75 per cent of funds were allocated to local governments, for either institutional strengthening support or capital grants for investments in pro-poor infrastructure and delivery of social services. This is a significant, 13 per cent increase over 2007, attributable in part to the considerable, 106 per cent increase in 2008 contributions to UNCDF other resources.

13. *Results in strengthening institutional capacity.* Overall target achievement for 2008 indicate that approximately 75 per cent of UNCDF-supported local governments have gained the capacity to apply basic standards for a planning and budgeting process. Results also show that 82 per cent of local governments

implemented their plans and budgets in a timely and efficient manner, and greater transparency was achieved in local investment decision-making. The participation of vulnerable groups and conflicting parties, particularly in the planning phase, also helped in post-conflict countries like Haiti reduce tensions in regions governed by UNCDF-supported local government. These results have been confirmed by external evaluations, such as those carried out in Lao People's Democratic Republic, the Republic of Haiti, and Burkina Faso.

14. *Local investment practices*. The presentation of results uses a sample of programmes in full operational mode. In 2008, local governments made investments of $11.8 million based on budgets approved for annual investment plans and UNCDF local development funds. The regional breakdown of these funds were: $1.6 million in Asia and the Pacific (13 per cent); $5.9 million in South and East Africa (50 per cent); and $4.3 million in West Africa (37 per cent). The sector breakdown of the 1,162 micro-investments made by UNCDF-supported local governments in 2008 shows significant similarities between the two regions – 45 per cent of investments were made in local economic infrastructure (roads, markets, agriculture, natural resource management) and 55 per cent in social service facilities, including primary education (Asia and Pacific – 27.1 per cent; South and East Africa – 29 per cent), water (Asia and the Pacific – 12.5 per cent; South and East Africa: 24 per cent), and primary health (Asia and Pacific – 6.8 per cent; South and East Africa – 5 per cent).

15. Generally, investment composition is biased towards basic, primary, small-scale economic and social infrastructure and is generally consistent with the sectoral focus areas defined in national poverty reduction strategy papers. However, the global investment portfolio averages, outlined in the previous paragraph, masks considerable variation. In Bangladesh for example, investments are highly skewed to roads, because such infrastructure is perceived as critical during the rainy season. In Ethiopia and Eritrea, investment demand is focused on water supply, while in Rwanda and Burundi have a high population density, investments in the rural economy are a high priority.

16. The average investment amount in 2008 varied greatly within, as well as across, regions. The average investment amount in Bangladesh for example, was $800, in Lao People's Democratic Republic, $10,000-$15,000, and in the Solomon Islands $25,000. In Asia and the Pacific, 923 investments were made during the year with an average investment amount of $1,733. In South and East Africa, 239 investments were made with the average investment totalling $24,957.

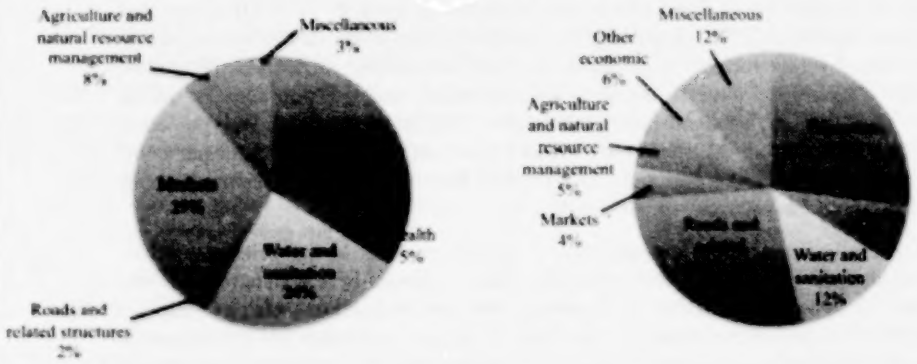
17. The cost effectiveness of local service delivery was one of the themes assessed by external evaluations. In spite of limited data, the mid-term evaluation in Lao People's Democratic Republic confirmed evidence of cost-savings per infrastructure unit managed at local level in comparison to infrastructure delivery managed from central government. In Eritrea, cost comparisons between a commercial contractor and community-based delivery indicated savings of one third without any evidence of quality losses. Experiences in West Africa confirm the importance of a transparent bidding process for keeping construction costs low.

18. *Achieving policy impact through results from the pilots*. Technically sound and evidence-based linkages between downstream pilot operations and upstream policy impact are a key feature in UNCDF programme design. According to baseline data, the highest potential for success in using policy relevant lessons at the local level for upstream policy impact exists in the areas of: (a) direct funding of locally-elected bodies; (b) official recognition of local governments roles and functions; (c) enhancing the national programme framework for decentralization;

(d) piloting instruments for fiscal decentralization; and (e) innovations in financial transfer mechanisms that are equitable and encourage improved performance.

19. As table 1 illustrates, target achievement rates in the area of policy impact vary considerably regarding different areas measured (50 – 73 per cent) and also across regions (50 – 100 per cent). Table 1 includes performance data from those programmes that, due to their cycle, had planning targets for policy impact outcome indicators in 2008. The degree to which UNCDF manages to take full consideration of a country's legal and institutional framework and its political and policy dynamics is a key factor for successful policy impact.

Figure 1. Investment portfolio South and East Africa (left) and Asia and the Pacific (right)



20. *Strategies for achieving policy impact.* In countries where the decentralization process has not yet generated the necessary institutional setup at the local level, UNCDF designs its local development programmes with a view to establish simulated local councils or similar institutional entities that have the capacity to deliver services at the local level. In Lao People's Democratic Republic, the district development committee model (simulating councils) received official adoption through a provincial decree. Similarly, in Timor Leste, the pilot local assemblies that were established are now being used as the base module for a new local government assembly system. In Niger, the national assembly approved an amended legal and regulatory framework for decentralization improving funding and transfer mechanisms to communes through the national treasury.

21. In programme countries where the political commitment for decentralization is still developing, UNCDF usually focuses on local-level piloting, in combination with informed advocacy to influence the national policy agenda. In Burkina Faso, a final evaluation stated: "The UNCDF programme helped communities to manage local development paving the way for an effective transition from pre-commune supported structures to formal commune-elected local government entities." In Guinea Conakry, the UNCDF management information system has been installed after a programme pilot phase at the national level (Direction Nationale de la Décentralization) and has been then adopted for replication at the regional level.

Table 1. Policy impact at a national level (overall total and per region)

UNDP strategic plan outcome (1.5): Strengthened capacities of local governments and other stakeholders to foster participatory local development and support achieving the MDGs.	**Plan**	**Actual**	**%**	**Assessment of performance***
Outcome 1.1: Countries that – with UNCDF support – have developed national strategies and programmes for decentralization and local development in order to achieve the MDGs				
Outcome indicator 1.1.1: Number of countries where governments officially: (a) adopt / mainstream public expenditure management-related procedures and other innovations for national use; and (b) develop / amend policy, legislative, regulatory, and / or monitoring and evaluation framework.				
Regional portfolio: Asia and Pacific	5	5	100	Achieved
South East Africa	4	2	50	Partly achieved
West Africa	6	4	67	Partly achieved
Total	**15**	**11**	**73**	**Partly achieved**
Outcome 1.2: Countries that - with UNCDF support – have transparent fiscal transfer systems in place that support local governments.				
Outcome indicator 1.2.1: Number of countries with improved fiscal transfer mechanisms in place (e.g. performance-based formula)				
Regional portfolio: Asia and Pacific	5	4	80	Achieved
South East Africa	2	1	50	Partly achieved
West Africa	1	1	100	Achieved
Total	**8**	**6**	**75**	**Achieved**
Outcome indicator 1.2.2: Number of countries where UNCDF supported local governments have received performance-based grants				
Regional portfolio: Asia and Pacific	6	3	50	Partially achieved
Total	**6**	**3**	**50**	**Partially achieved**

* Performance assessment scores: Achieved: 75-100 per cent; Partially achieved: 50-75 per cent; Not satisfactory: < 50 per cent

22. In programme countries with a clear political commitment to decentralization, UNCDF programmes usually include a more substantial technical and policy advisory component to assist national authorities in developing and implementing national decentralization policies, legislation, and procedures (e.g. Nepal, Senegal and Mali). Through technical assistance to the Ministry of Local Government in Rwanda, for example, UNCDF contributed to the ongoing restructuring of public service delivery systems with a concrete proposal on assignment of expenditure responsibilities between central and local government.

23. *Performance-based funds transfer*. Concrete results in putting fiscal transfer mechanisms in place were mainly achieved in countries where UNCDF provided local governments with performance-based grants. Linking block grant allocations to local government performance represents a strong incentive to ensure proper use of transferred funds in compliance with rules. Despite the particular differences between minimum conditions in various countries, their application is based on a set of common principles: (a) They are usually directly derived from the provisions of the national legal and regulatory framework; (b) Satisfactory compliance is an

absolute precondition for access to the next year's block grant funding; (c) all local governments must undergo an annual performance review; and (d) the reviews are used to enhance the local demand for remedial capacity building.

24. In Senegal, the recently-launched national programme (Programme National pour le Développement Local) has adopted key principles of a performance-based budget access based on an earlier UNCDF pilot. The governments of Bangladesh, Nepal and Solomon Islands have started the roll-out of this approach through national decentralization programmes. In Burundi, the government has manifested interest in a nation-wide adoption of the UNCDF grants model on the commune level.

25. *Replication through strategic partnerships*. Based on lessons-learned by activating government systems at the local level, UNCDF provides evidence-based policy advice to national governments towards replication and up-scaling at national level. The subsequent launches of national strategies for decentralization are usually funded by other development partners who target larger-scale interventions, such as the World Bank or European Commission. Hence, strategic partnerships are a key feature in UNCDF interventions during the UNCDF programme piloting phase, and the subsequent up-scaling and replication phase at national level thereby accelerating efforts towards achieving the MDGs.

26. Table 2 illustrates UNCDF high overall performance in terms of: (a) adoption by donors of UNCDF-supported local development strategies through innovations in their own programme or in a joint programming with UNCDF, and (b) the number of countries where UNCDF has been instrumental in developing national programmes or providing a framework to national governments for harmonizing donor support.

Table 2: Replication through strategic partnerships (overall total and per region)

UNDP strategic plan Outcome (1.5): Strengthened capacities of local governments and other stakeholders to foster participatory local development and support achieving the MDGs	**Plan**	**Actual**	**%**	**Assessment of performance**
Outcome 1.1: Countries that - with UNCDF support – have developed national strategies and programmes for decentralization and local development in order to achieve the MDGs.				
Outcome indicators 1.1.3: Number of countries where donors independently adopt UNCDF-supported local development strategies or innovations in their own programme, or subscribe to a joint programme with UNCDF				
Regional portfolio: Asia and the Pacific	6	6	100	Achieved
South East Africa	3	2	66	Partly achieved
West Africa	3	2	66	Partly achieved
Total	**12**	**10**	**83**	**Achieved**
Outcome indicator 1.1.4: Number of countries where UNCDF is instrumental in developing national programmes, or providing a framework to national governments for harmonizing donor support.				
Regional portfolio: Asia and the Pacific	5	5	100	Achieved
South East Africa	2	1	50	Partly achieved
West Africa	3	2	66	Partly achieved
Total	**10**	**8**	**80**	**Achieved**

27. In Asia and the Pacific, the number of countries targeted for replication and upscaling in 2008 was relatively high. Bilateral and multilateral development partners, such as the Danish International Development Agency, Swiss Agency for Development and Cooperation, the World Bank and the Asian Development Bank have shown a particular interest in replicating innovations such as performance-based block grants, participatory planning and budgeting arrangements, policy framework on fiscal decentralization and social protection mechanisms through local governments. In 60 per cent of the programmes, UNCDF played a leading role in designing national government frameworks for donor harmonization.

28. In South and East Africa, targets were only partially achieved as a result of particular portfolio circumstances. However, in countries where UNCDF has had strong strategic partnerships – Tanzania, Uganda, Malawi and Mozambique – significant results were achieved where highly successful UNCDF pilots were mainstreamed into national programmes. UNCDF is now taking the lead in a 'third generation' of programmes with a focus on innovations in new niches such as local economic development based on demand from governments and in partnership with development partners (Uganda, Tanzania, Ethiopia). The portfolio in this region comprises a high number of post-conflict countries, which is particularly challenging for achieving significant policy impact and replication in a short term.

29. *Strong partnerships across regions*. In 2008, UNCDF had ongoing strategic partnerships with 24 donor development partners. Examples of new partnerships include: (a) the gender equitable local development programme – a joint UNCDF-United Nations Development Fund for Women initiative; and (b) the local economic development programme, co-financed by Austria. In West Africa, strategic partnerships with bilateral partners like France, Belgium and Luxembourg are well established. In recent years, co-financing by donor development partners of UNCDF 'second generation' local development programmes have increased by 300 per cent compared to co-financing of previous pilot phases. The 'buy-in' of multilateral donors such as the European Union or the African Development Bank has become increasingly important – $1.5 million has been committed thus far. In Guinea Conakry, a fruitful partnership has evolved with private mining companies who allocate investment funds to local governments for investments agreed upon in a local planning cycle based on principles previously piloted by UNCDF.

30. Table 3 illustrates the demand for UNCDF-specific services by showing resources leveraged from other development partners within joint programmes where UNCDF has had a leading role, or otherwise has been strongly involved in program design and implementation.

31. In UNCDF and UNDP joint local development programmes, the leverage ratio of UNCDF resources to those of UNDP amounted to 4.7 ($1 UNCDF to $4.7 UNDP). The combined UNCDF and UNDP regular resources to other resources ratio (cost sharing by donor development partners) amounted to $2.6 ($1 combined UNCDF-UNDP to $2.6 other partners). This considerable leverage reflects, above all, strong efforts made by UNCDF and UNDP in the past three years to fully implement their new strategic partnership for the enhanced delivery of development results, including increased levels of resources for the least developed countries. The high leverage ratio in Asia and the Pacific region is attributable to donor contributions for large-scale national decentralization programmes that are based on reforms and innovations introduced and tested in UNCDF pilots, such as in the case of Nepal and Bangladesh.

Table 3: UNCDF leverage (in millions)*

Regions	Joint programme resources (in millions)					Leverage	Parallel **	Govern-ment**	Leverage	Grand total	Partners
	UNCDF	UNDP	Co-fin UNCDF	Co-fin UNDP	Total	$1 UNCDF: co-funds			$1 UNCDF/ UNDP co-funds		
Asia and Pacific	11.3	11.2	23.7	17.8	64.5	5.7	284.2	355.3	9.9	704.0	United Nations, W Bank, Asian Development Ban European Commis Department for International Development, Nor Danish Internation Development Age German Agency fo Technical Coopera Luxembourg Agen Development Cooperation, Fran Ireland, Swiss Age for Development a Cooperation, Aust Agency for Interna Development.
South and East Africa	20.4	20.3	26.4	60.0	127.1	6.2	-	6.0	0.04	133.1	United Nations, European Commis Department for International Development, Bel Survival Fund, Au Norway, The Netherlands
West Africa	21.0	14.1	19.9	5.0	60.0	2.8	-	8.4	0.14	68.4	United Nations, European Commis World Bank, Afric Development Bank Belgian Survival F France, Luxembou Agency for Develo Cooperation, Kreditanstalt für Wiederaufbau
Haiti	0.4	0.3	0.3	-	1.0	2.5	2.3	0.3	2.6	3.6	United Nations, I American Develo Bank, Canadi Internationa Development Ag
Total	**53.1**	**45.9**	**70.3**	**82.8**	**252.6**	**4.7**	**286.5**	**370.0**	**2.6**	**909.1**	

* Refers to the active local development programme portfolio as of 31 December 2008

**Multi-annual budget commitments of parallel and government funding

32. *External feedback*. The results of the self-assessment above were largely confirmed by external evaluations conducted in 2008. According to the findings of a mid-term evaluation in Lao People's Democratic Republic, donor development partners (European Union, World Bank and the Luxembourg Agency for Development Cooperation) chose to fund the replication and scaling up of the UNCDF pilot programme because of the close links between the UNCDF programme design and national policy concerns. The recent evaluation in Haiti has

acknowledged that the successful mobilization of parallel funding was a result of high quality of local planning and the degree of participation of vulnerable groups initiated at commune level. The joint assessment of development results for Benin states: "Working with the UNCDF model and technical support, UNDP contributed to establishing an example of good practice. The central government adopted decentralized and participatory mechanisms from the UNCDF pilot that qualitatively improved its capacity to develop pro-poor policies".

33. An evaluation of World Bank support to decentralization[1] made reference to the substance and quality of UNCDF work on the ground, with special recognition of the organization's innovative approaches and strong technical expertise. The report emphasized that the most successful World Bank technical support interventions to national governments occurred in countries that previously enjoyed support from UNCDF; these countries benefitted in the areas of in-depth policy analysis, new models for fiscal decentralization, and modalities for performance-based grant access.

34. *Demand-driven piloting in new areas*. UNCDF enjoys strong demand for its capacity building and technical advisory services, as well as its investment capital within the area of decentralization and local development. Examples for UNCDF support in piloting new innovations are the following:

(a) *Support for local economic development* – The local economic development concept in Tanzania is embedded in the context of decentralization by devolution ('D by D') and the national strategy for growth and poverty reduction. The local economy in Mwanza programme represents a second-generation local development programme model, developed in 2006 by UNCDF, and is an integral part of local government reform in Tanzania. The programme pioneers an innovative approach to pro-poor local economic development that stresses the importance of partnerships between local governments, the private sector and community groups to mobilize and manage local resources in order to unleash local entrepreneurship and stimulate the local economy. The district forum for local economic stakeholders programme plays a vital role in promoting public-private partnerships. The establishment of business development shops has proven to be a successful model for providing relevant services at the local level.

(b) *Strategies for post-conflict and crisis-prevention* – The UNCDF approach contributes to: (i) Revision of political, developmental and humanitarian assistance; (ii) Clear definition of linkages between humanitarian interventions and/or reconstruction in post-conflict situations with on-going efforts for reconciliation; (iii) The importance of analysis of the underlying causes of civil conflict often related to lack of governance, lack of participation of the poor in decision-making and poor human rights; and (iv) Establishing a new conceptual framework for the management of complex emergencies. In countries such as Burundi and Sierra Leone for example, the UNCDF performance-based local development fund model, combined with public expenditure management training, has been introduced with considerable success.

(c) *Food security* – UNCDF is gaining considerable experience in developing and implementing strategies for food security. In 2008, a new approach to food security was launched focusing on establishing linkages of food security strategies with private financial service providers. The Ministry of Finance in Benin has expressed particular interest in a model that prevents risks emerging

[1] Decentralization in Client Countries, An Evaluation of World Bank Support 1990-2007 (World Bank, 2007)

from food crisis situations for vulnerable groups living in rural areas. A warranty fund amounting to $900,000 has been established with a private financial service provider at the community level. The Islamic Development Bank and Belgian Technical Cooperation have expressed an interest to replicate this approach with a fund of $400,000 in the pipeline, allocated at sub-regional and departmental levels.

(d) *Social protection* – In Nepal, UNCDF is working with the government and World Bank to establish a pilot to test the role of village development committees in supporting a social protection agenda targeting resources to those groups who have been long marginalized. The aim is to establish a conditional cash transfer mechanism whereby monthly stipends will be allocated to households meeting agreed exclusion and poverty criteria. A similar initiative is also planned for implementation in Lao People's Democratic Republic and Rwanda.

B. Performance analysis for sub-goal 2: microfinance

35. In its microfinance practice area, UNCDF supports the development of inclusive financial sectors that provide a broad range of affordable financial services to poor and low-income families as well as small and micro enterprises in least developed countries. This is an effective means of contributing in a sustainable way to poverty reduction and achievement of the MDGs.

36. In 2008, UNCDF applied its inclusive finance sector development approach in 20 least developed countries, in line with reaching the objective of 25 countries by 2010. Although no new programmes were formally approved in 2008, programme formulation did proceed so that three new ones were approved in early 2009. In 2008, due to rapid expansion in 2007 (eight new countries), intensive efforts were focused on making current programmes operational. Least developed countries supported in national efforts to build an inclusive financial sector include: 11 in sub-Saharan Africa; seven in Asia; and two in Arab States.

37. *SmartAid for Microfinance Index*. In 2008, UNCDF continued to participate in the independent review of aid effectiveness conducted by the Consultative Group to Assist the Poor. Dubbed the 'SmartAid for Microfinance Index', results showed UNCDF to be among the leading donor organizations in 2008; the fund received strong marks on all five elements of the index – strategic clarity, staff capacity, accountability, knowledge management and appropriate instruments. UNCDF dedicated considerable time throughout 2008 to making improvements suggested in the Consultative Group to Assist the Poor report. Ratings for 2009 were not available at the time of publication, however UNCDF will post the 2009 results when they are available on its website, the CGAP website as well as include a full description in the UNCDF Illustrated Annual Report.

Table 4. Achievements of 2008 targets in the microfinance practice area

UNDP strategic plan outcome 1. 6: Policies, strategies and partnerships established to promote public-private sector collaboration and private-sector and market development that benefits the poor and ensures that low-income households and small enterprises have access to a broad range of financial and legal services	**Plan**	**Actual**	**%**	**Assessment of performance**
Policy				
Outcome: (2.1) Countries that have developed with UNCDF support an action plan in support of building an inclusive financial sector				
Outcome indicator 2.1.1: Increased capacity of government to support conducive policy environmnent for an inclusive financial sector	16	16	100	Achieved
Outcome indicator 2.1.2: Increased capacity of regu-latory and supervisory authorities to develop conducive legal framework for an inclusive financial sector	10	6	60	Partly achieved
Outcome indicator 2.1.3: Nationally-owned government and donor action plans exist in support of building inclusive financial sectors	9	8	88	Achieved
Capacity building: Meso-level – industry support infrastructure				
Outcome: (2.2) Supporting industry infrastructure for delivery of financial services to low-income households established				
Outcome indicator 2.2.1: Local financial service provider networks in place	12	12	100	Achieved
Outcome indicator 2.2.2: Increased visibility (microfinance information exchange market) of UNCDF-supported financial institutions	37	20	54	Partly achieved
Outcome indicator 2.2.3: Increased transparency (audit) of UNCDF-supported financial institutions	37	37	100	Achieved
Capacity building: Retail level – services to clients				
Outcome: (2.3) Financial service providers (microfinance institutions/financial service providers) that provide sustainable access to financial services for poor families and small and micro enterprises				
Outcome indicator 2.3.1: Increased breadth and depth of services provided by UNCDF-supported financial intermediaries to low income households	*	*	*	*
Outcome indicator 2.3.2: Increased sustainability of UNCDF-supported financial intermediaries serving low-income households	37	27	73	Partly achieved
Outcome indicator 2.3.3: Increased efficiency of UNCDF-supported financial intermediaries serving low-income households	37	17	46	Below expectations
Outreach to clients:				
Outcome: (2.4) Clients have sustainable access to financial services from UNCDF-supported (microfinance institutions/financial service providers), including at least 50 per cent women				
Outcome indicator 2.4.1: Number of active clients	2,100,000	1,768,931	84	Achieved
Outcome indictaor 2.4.2: Percentage of women	>67	65	97	Achieved
Total			**80**	**Achieved**

Indicator 2.2 * will be captured by the new UNCDF joint programmes with the International Labour Organization (microinsurance) and International Fund for Agriculture-Consultative Group to Assist the Poor-European Union (remittances).

38. In 2008, UNCDF achieved overall performance of 80 per cent in its ongoing inclusive finance activities. In almost all countries, the capacity of governments to support a policy environment conducive to inclusive finance (outcome 2.1.1) has increased. In addition, 60 per cent (six out of 10 countries) of regulatory and supervisory authorities have increased their capacity to develop favourable legal and regulatory frameworks. Although overall the result was only partially achieved, the quality of the results for the six countries was positively evaluated. Ninety-two percent of microfinance institutions/financial service providers are providing performance reporting to regulatory authorities to increase their understanding of the sector's development (outcome 2.1.2).

39. Almost all active UNCDF sector programmes have as targets the development of joint government and donor strategies (outcome 2.1.3). The percentage of countries with approved action plans has increased from 38 per cent in 2007, to 88 per cent (eight out of nine) in 2008. In line with the Paris Declaration on Aid Effectiveness, UNCDF seeks to support national ownership and engage all of the development partners in designing national action plans for building inclusive finance sectors.

40. Performance remained strong in terms of the local financial sector supporting infrastructure (outcome 2.2). All of the countries assisted have a supporting industry infrastructure primarily in the form of national associations and networks (microfinance institutions/financial service providers). In addition, 98 per cent of microfinance institutions/financial service providers supported by UNCDF belong to a national association or network. These results have remained strong even as the total number of microfinance institutions/financial service providers supported has increased from 29 to 37 in 2008. These two results also clearly show the recognition by microfinance institutions/financial service providers of the importance of collaboration for purposes of advocacy, standard setting and knowledge management. In 11 least developed countries, UNCDF provided direct support to strengthen the institutional capacities of the national microfinance institution associations, either in the form of grants or by ensuring their inclusion in training activities and the elaboration of national strategies.

41. In 2008, 54 per cent (down from 66 per cent in 2007) of microfinance institutions/financial service providers reported to the microfinance information exchange market – the microfinance industry standard database for capturing financial service providers performance. Although the number of microfinance institutions/financial service providers reporting to the microfinance information exchange market increased from 18 to 20, the percentage dropped somewhat in 2008 as many recently established microfinance institutions/financial service providers were added to the UNCDF portfolio. Some of the weaker microfinance institutions/financial service providers have difficulty posting their data in the microfinance information exchange market database and will require initial UNCDF support to do so. In 2008, 100 per cent (up from 62 per cent in 2007) of microfinance institutions/financial service providers had industry standard audits (outcome 2.2.2), reflecting the strong effort made by the UNCDF Africa team.

42. Results on the sustainability of microfinance institutions/financial service providers decreased slightly from 76 per cent in 2007 to 73 per cent in 2008. The number of microfinance institutions/financial service providers achieving profitability increased from four to seven in 2008, a confirmation that UNCDF is

taking risk and investing in younger, unproven institutions[2]. The number of microfinance institutions/financial service providers supported by UNCDF that are meeting the international standard of strong portfolio quality increased from 11 to 17 (46 per cent). Although the efficiency of microfinance institutions/financial service providers as measured by portfolio quality (outcome 2.3.2) still remains unsatisfactory (46 per cent), there was improvement from the 38 per cent in 2008. In addition, 28 of 37 (76 per cent) have a 'portfolio at risk' of less than 7.5 per cent, an acceptable level, indicating that reaching a 'fully achieved' result is within reach in 2009. Stronger portfolio monitoring and building repayment capacity will continue to be a key focus of UNCDF technical support in 2009.

43. Regarding UNCDF outreach – that is, the number of people with improved access to financial services – 2008 performance met expectations. In sub-Saharan Africa, 1,768,931 active clients (of which, 65 per cent were women) were being served by 37 microfinance institutions/financial service providers supported by UNCDF and UNDP joint programmes to build inclusive financial sectors. This constitutes 84 per cent of achievement of the target to reach 2,100,000 clients in 2008. Given that the average household has five people, this represents an impact on 8,844,655 lives. Table 5 shows steady annual increases.

Table 5: UNCDF active client base, 2004-2008

Year	2004	2005	2006	2007	2008
Number of active clients	379,018	438,272	616,035	1,171,306	1,768,931 of which 1,150,455 (65 per cent) are women.

4

44. UNCDF plays an important role as policy and technical advisor to UNDP, including in non-least developed countries, to ensure consistent application of best microfinance practices. In 2008, UNCDF supported UNDP inclusive finance activities in 11 countries where UNCDF did not have investments, including seven non-least developed countries.

45. UNCDF also achieved policy impact and leverage through its harmonized support to the Central Bank of West African States. This support is being harmonized with the newly approved Luxembourg development assistance for West Africa ($25 million) that will assist the eight countries of the West African Monetary Union to implement a new regulatory framework. The evaluation noted that all three development partners managed to function as a real consortium, successfully coordinating approaches and maintaining an open attitude regarding new funding for the central bank. This approach has contributed to the success of the project, especially the regulatory framework.

46. The programme has, so far, had three major achievements in West Africa: (a) the regulatory framework was significantly modified, eliminating key obstacles hindering development of the regional microfinance sector; (b) a new accounting framework was defined and is currently being disseminated; (c) closer coordination between the Central Bank of West African States and national

[2] Five to seven years is considered a reasonable span of time for a financial service provider to achieve financial sustainability (profitability).

authorities and the organization of joint inspection missions have helped improve supervision in Union Monetaire de l'Afrique Occidentale countries.

47. *Micro-insurance*. In 2007, UNCDF developed a joint project with the International Labour Organization in the area of micro-insurance. The objective of UNCDF support to micro-insurance is to provide low-income households in least developed countries with access to appropriate insurance services that would enable them to more effectively cope with perils and risks in their environments. In 2008, using a UNCDF sector-based approach, the promotion of micro-insurance was tested in Ethiopia. Based on in-depth reviews of the demand, supply and regulatory issues in micro-insurance, UNCDF and the International Labour Organization helped the Ethiopian authorities to convene a national workshop (October 2008) to review the studies and prepare for a national action plan to promote micro-insurance in Ethiopia. Following the workshop, a national steering committee was established, chaired by the insurance supervisor's office within the National Bank of Ethiopia with stakeholders that included private insurers, microfinance institutions and their respective national associations. The steering committee began establishing a national micro-insurance action plan, highlighting the priority actions to be taken at the policy, meso- and retail levels to foster large-scale access to micro-insurance services in the country. Strong synergies were also developed with the World Bank programme in support of insurance sector reform in Ethiopia. A decision was also made to develop similar sector-based pilot programmes in Zambia as well as Nigeria (with UNDP funding for the latter) in 2008.

48. *Remittances*. In 2008, UNCDF officially joined the $12 million multi-donor funding facility for remittances with its $600,000 contribution. As member of steering and investment committees, UNCDF took an active part in the facility's second call for proposal, which funded 21 pilot programmes around the world (including five in Africa), which core objectives are to facilitate access to cost-effective remittance services for low-income people, strengthen the linkage between remittances and other financial services including savings and insurance, and help harness the development potential of remittances. The facility is also actively engaged in action-research work and, in 2008, commissioned a major study on remittance corridors in Africa.

49. *UNCDF MicroLead*. The important role of microcredit in the fight against poverty is well recognized and documented. Perhaps less well known, but potentially just as important, is the high demand for savings opportunities for poor families and small and micro enterprises in developing countries. Many poor households are net savers seeking convenient and safe deposits, which can ultimately fund microcredit activities. This is particularly true in post conflict and crisis environments, where safe savings services are usually not available. Similarly, savings-based microfinance institutions have been found to be better positioned to weather periods of financial downturn, as is the case in the current global financial crisis, which has reduced the supply of capital from capital markets and donor contributions to microfinance institutions.

50. Against this background, UNCDF recently launched MicroLead, a $26 million fund to develop savings-led market leaders for inclusive finance in least developed countries. With a contribution of nearly $20 million from the Bill & Melinda Gates Foundation, MicroLead will provide loans and grants to leading microfinance institutions/financial service providers on a competitive basis to facilitate their entry into least developed countries where access to finance is most challenging. MicroLead will also have a special window for early support to post-conflict countries. By encouraging the entry of good practice microfinance

institutions/financial service providers as soon as critical security conditions are met, financial sectors in post-conflict countries will be able to offer an earlier scaling-up of sustainable outreach of financial services to poor families and small and micro firms.

51. In its pilot phase in 2008, UNCDF and the Government of Southern Sudan approved three proposals in line with the MicroLead post-conflict window. Among these was funding for the Bangladeshi microfinance institution, Brac, to launch its plan to reach 225,000 active clients in Southern Sudan within five years. Based on these experiences, UNCDF has recently launched a request for applications targeted towards globally top-performing microfinance institutions/financial service providers. MicroLead currently has funding to approve at least 10 proposals, and UNCDF will be inviting development partners to fund additional proposals that are deemed promising.

II. Management results

C. Performance analysis for sub-goal 3: organizational performance

52. The UNCDF performance framework for measuring organizational performance was developed in 2005 based on the UNDP framework. Considering recent efforts to establish a UNDP Executive Balance Scorecard system (launch anticipated in 2009), the use of the 2007 UNCDF performance framework, shown in table 6, should be considered a transitional measure. UNCDF will adjust this framework in accordance with the new system in place at UNDP, taking into account specific business/management needs and priorities set out by the UNCDF senior management team.

53. As seen in table 6, the overall target to provide support services to 38 least developed countries in the area of local development and inclusive finance in 2008 was achieved, as well as the new emphasis to move progressively into post-conflict countries. In this regard, UNCDF successfully provided services to 10 post-conflict countries out of 14 targeted (71 per cent).

54. *United Nations Development Assistance Frameworks (UNDAFs), common country assessments and country programme action plans.* The contributions of UNCDF in its two practice areas are now being better integrated into the United Nations common country programming frameworks. Ongoing discussions with UNDP regional bureaux are translating into a more regular engagement of UNCDF in UNDAF formulation processes. As a concrete example of this, UNCDF was invited early this year to participate in the strategic review of the progress on the UNDAF implementation and the United Nations business plan in Malawi. For UNCDF, integration in the United Nations joint programming process means working closely with United Nations country teams to promote and clarify the importance of its two practice areas for the achievement of the MDGs. It also means advocating the comparative advantages of UNCDF within the larger United Nations.

Table 6. Achievement of 2008 targets for organizational performance

Perspective	Strategic objective	Indicator	2007 result	2008 target	2008 result
Client satisfaction	Expand geographically to more least developed countries, including post-conflict least developed countries	Least developed countries with UNCDF programmes	31 least developed countries	38 least developed countries	38 least developed countries
		Post-conflict least developed countries with UNCDF programmes	14 least developed countries	14 least developed countries	10 least developed countries
	Improve strategic partnership with UNDP and the rest of the United Nations system	UNDP country office satisfaction with overall quality of partnership with UNCDF*	60 per cent	75 per cent	*
Internal efficiency	Increase staff at regional and country level to be closer to clients and investments	Ratio of professional staff posted at country and regional levels	70 per cent	75 per cent	75 per cent
	Strengthen United Nations coordination	Integration of UNCDF in United Nations country-level programming framework	31 least developed countries	32 least developed countries	31 least developed countries**
	Improve efficiency of delivery	Administrative-to-total-expenditure ratio	22 per cent	20 per cent	25 per cent
		UNDP country office satisfaction with timeliness of operational support*	55 per cent	75 per cent	*
	Strengthen 'people management'	Staff perception*	75 per cent	80 per cent	*
Financial resources	Achieve resource mobilization targets	Regular resources mobilized	$15.6 million	$25.0 million	$23.5*** million
		Other resources mobilized	$12.9 million	$20.0 million	$26.6 million
	Ensure delivery against plan	Delivery against approved annual spending limits	84 per cent	80 per cent	70 per cent

* Results of UNDP surveys in these areas had not yet been received by the time this report was finalised.

** Targeted United Nations common country programming processes not yet finalised by the time this report was drafted.

*** Including earmarked contributions of $6.0 million from UNDP managed by UNCDF but not reflected in UNCDF financial statements (Executive Board decision 2007/34)

55. *UNCDF internal efficiency*. In an effort to increase internal efficiency, UNCDF completed the transition period that started after the change management process in 2005. The strengthening of the regional and country-level presence of UNCDF slightly increased to 75 per cent, compared to 70 per cent in 2007. Given its recent growth, UNCDF has started an operational strengthening process called 'UNCDF Project 2010' – based on an operational scan conducted by an external consultant in 2008 and an audit currently being carried out by the Office of Audit and Investigation of UNDP, to ensure UNCDF internal structures and systems are updated to support expanded operations and meet future demand. The process will evolve over the next 20 months and will consider, *inter alia*, the optimal balance of headquarters, regional and country presence of UNCDF. In 2008, the ratio of administrative to total costs reached 25 per cent, higher than the target of 20 per cent. Depending on the direction of ongoing cost classification exercise in UNDP,

there could be an opportunity for UNCDF to paint a more realistic picture of overall organizational costs in the future.

56. *UNCDF growth.* In 2008, contributions to UNCDF regular and other resources increased significantly by approximately $8 million (regular resources) and $13.7 million (other resources) respectively, which is an overall increase of 76 per cent from 2007. Delivery against 2008 targets for practice areas was 70 per cent. The 'UNCDF Project 2010' process of operational strengthening should help the organization improve this score in 2009.

57. Table 7 provides a snapshot that anticipates strong and growing demand for UNCDF-specific services. In the local development practice area, the number of local governments supported by UNCDF in 2008 totalled 649, which exceeded set targets. For inclusive finance, planned country expansion in 2008 did materialize due to the rapid expansion in 2007 (eight new countries) and the intensive work in making current programmes operational. The number of least developed countries supported in their national efforts to build an inclusive financial sector includes 11 in sub-Saharan Africa, seven in Asia and two in Arab States. Thirty-seven private service providers ensured access by 1.7 million active clients to financial services. With the approval of three new programmes in early 2009, UNCDF estimates that 25 least developed countries will be benefiting from UNCDF support in the area of inclusive finance by the end of 2009.

58. By 2011, the strategic goals are to be operational in 45 least developed countries, consolidate interventions of both UNCDF business lines, reach 1,250 local governments, and have 55 private service providers in inclusive finance meeting the demand of 6.0 million active clients. Considering the current UNCDF growth rate, internal capacity is anticipated to increase. Options are being discussed with UNDP on providing strategic advisory services to non-least developed countries as well.

Table 7. UNCDF business development 2007 – 2011

Business lines	**2007**	**2008**			**2009**	**2011**	**2008 -2011**
Local development	Actual	Plan	Actual	%	Plan	Plan	Growth per annum (percentage)
Number of countries	29	34	34	**100**	37	**45**	8
Number of local governments	518	600	649	**108**	850	**1,250**	27
Inclusive finance							
Number of countries	20	20	2037	**100**	25	**30**	12
Number of service providers	11	40	37	**92**	45	**55**	9
Number of active clients (millions)	1.6	2.1	1.7	**81**	2.0	**6.0**	46
Total							
Number of countries	28	37	37	**100**	45	**50**	8
Number of public/ private service providers	529	640	686	**107**	900	**1,305**	26

III. Financial analysis

59. Total regular and other resources income increased by 76 per cent, from $28.5 million in 2007 to $50.1 million in 2008. This is the highest level of income to UNCDF in at least 15 years. Much of this recent growth, however, has been in other resources reaching $26.6 million in 2008 – a 106 per cent increase over 2007. Regular resources, while up significantly in percentage terms – 51 per cent over 2007 – totalled $23.5 million in 2008 (which included an earmarked contribution of $6.0 million from UNDP, managed by UNCDF, in line with Executive Board decision 2007/34). This was short of the $25 million per year minimum called for in the 2008-2011 UNCDF investment plan, and is still too heavily reliant on a small set of donors. Overall, UNCDF received contributions from 24 donors in 2008. The five main contributors to UNCDF regular resources in 2008 were Sweden, Spain, Norway, Luxembourg and Belgium. The five largest contributors to UNCDF other resources in 2008 were the Bill & Melinda Gates Foundation, Belgian Survival Fund, Luxembourg, Australian Agency for International Development, and the Canadian International Development Agency.

60. As shown in table 8, total programme expenditure increased to $37.0 million in 2008, compared to $28.7 million in 2007. Other resources expenditures increased from $14.4 million in 2008, compared to $9.7 million in 2007 and accounted for 39 per cent of total programme resources.

Table 8. Expenditure trends, 2002-2008 (in millions)

Expenditures	2002	2003	2004	2005	2006	2007	2008
Programme expenditures	$24.8	$21.1	$22.9	$19.2	$25.2	$28.7	$37.0
- of which regular resources	$22.6	$16.3	$14.9	$11.6	$16.8	$19.0	$22.6
- of which other resources	$2.2	$4.8	$8.0	$7.6	$8.4	$9.7	$14.4
UNCDF support	$5.5	$6.2	$5.3	$6.7	$4.6	$5.4	$6.8
Total	**$30.3**	**$27.3**	**$28.2**	**$25.9**	**$29.8**	**$34.1**	**$43.8**

61. Total UNCDF support expenditure in 2008 was $6.8 million compared to $5.4 million in 2007. The increase of $1.3 million can be attributed to 2007 outstanding service level agreements and non-recurrent staff costs.

62. In 2008, UNCDF also disbursed $2,687,983 in loans (together with $1,825,000 in grants, already reflected in expenditure) to microfinance institutions in Southern Sudan. These funds were disbursed under the post-conflict window of the MicroLead programme to help jump-start the microfinance sector in Southern Sudan. Together with the Government of Southern Sudan and UNDP, UNCDF will formulate a sector programme in 2009.

63. Table 9 shows that in 2008, the Africa region accounted for 63 per cent of total expenditures at field level, while Asia and the Pacific accounted for 17 per cent.

Table 9. Programme expenditures per region/practice area (in millions)

Regions/specific purposes	Local development	Microfinance	Total
Africa	$17.4	$6.0	$23.4
Asia and the Pacific	$6.1	$0.2	$6.3
Arab States	$1.0	$0.1	$1.1
Latin America	$1.5	$0.0	$1.5
Regional projects	$0.5	$3.3	$3.8
Research and development	$0.2	$0.1	$0.3
United Nations advisors group	$0.0	$0.6	$0.6
Total	**$26.7**	**$10.3**	**$37**

Source: Financial statements for UNCDF as at 31 December 2008, before final closing of accounts.